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INTELLIGENCE REPORT

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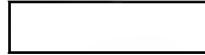
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STATE	WAR	NAVY	JUSTICE	Next Review Date: 2008	R & E	C & D					

1. The recent trip to Hungary of Pál Auer, Hungarian Minister to Paris, was ostensibly to report on the French elections but was actually to consult with Prime Minister Ferenc Nagy on Auer's appointment as Foreign Minister. Auer unequivocally told Nagy that he will not be Foreign Minister so long as the Russians are in Hungary. He advised that János Gyöngyössy be retained rather than waste a good man at the present time. Nagy accepted this advice.
2. Matyás Rakosi, Hungarian Communist Party leader, is apparently tired of taking the blame for the Soviet occupation and now wants to see it end if only to salvage economic stability. He complains of the heavy cost of maintaining occupation forces and says the Peace Treaty should be hastened so that the Soviets can take over the cost of maintaining their troops protecting the supply line to Austria.
3. A New York Times article appearing about the time of the French elections, claiming that the Western Powers had let Rumania and Hungary down completely, gave Russophiles and Communists ammunition in their fight to turn Hungary over to Russia. Even Nagy, under President Zoltán Tildy's influence, almost resigned his post to permit complete collaboration with the Soviets. Taking advantage of this attitude, the Communists redoubled their demands for a further Small Holders purge. Tildy was again ready to accede and Nagy was considering a "friendly request" to about fifty members of Parliament to leave the Small Holders Party.
4. The Rumanian election results, plus the unexplained Paris trips of the Hungarian Communists László Rajk, Ferenc Munnich and József Révai, have increased tension to the point that Nagy has almost decided that a denial of the Radical Party's demands would bring on civil war. But Auer and Béla Kovács, the strongman of the Small Holders Party, and several others convinced Nagy that the rights of a freely elected majority should be upheld against the minority and foreign powers even at the expense of a civil war.
5. Three appeasement measures were decided upon:
 - A. State Secretary of the Ministry of Justice, Zoltán Pfeiffer, who is unpopular with General Sviridov and the Radicals, would be asked to resign.
 - B. State Minister B. Szabó, regarded as a political nonentity, would be replaced.
 - C. Nagy will soon issue a plea to the Small Holders asking for their loyal cooperation within the coalition.

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6. Although Nagy was now set to resist the Communist demands, he and others who realize the gravity of the situation are apprehensive of the future. On the one hand, the Communists control the Army and the police, and, on the other hand, the Communists and Social Democrats each have secret and well-organized armed groups. The Nagy group fear that a Russian withdrawal will be the signal for an armed putsch. They believe that only American intervention can save Hungary from complete domination by Russia and the Communists.
7. Arpad Stakasits, the Social Democratic leader, wants to delay the final showdown between the Small Holders and the Leftists until the Russian occupation ends.

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